

# Fishhooks lurk in Kotahi deal

**Nick Grant**

The widely applauded 10-year shipping contract deals announced late last month between Port of Tauranga, Kotahi and Maersk Line, have also been greeted with apprehension in some quarters.

The pact between the Bay of Plenty port and the logistic company led by Fonterra Cooperative Group and Silver Fern Farms involves Kotahi providing up to 1.8 million TEU (twenty foot equivalent) export cargo containers to Port of Tauranga over the next 10 years, plus significant export cargo to Port of Tauranga's Timaru Container Terminal.

It also sees Kotahi taking up shares in the port and container terminal to ensure the parties' long-term strategic alignment. The port has in turn committed to investing in infrastructure, including a stepped-up harbour dredging programme that will enable visits from larger 6500 TEU container ships.

In a concurrent, separate agreement, Kotahi will provide up to 2.5 million TEU export cargo containers to international shipping company Maersk Line over the next decade.

"The commitment is fan-

tastic and it's one New Zealand needed," says Chinthaka (Chin) Abeywickrama, a key industry figure and managing director of logistics company Netlogix, which launched in March last year with foundation customer Carter Holt Harvey.

"Everyone's been hungry for something like this because it makes the required infrastructure investments [by the port] viable.

"But this particular commitment is not free of risk," says Mr Abeywickrama, who is also president of the chartered institute of Logistics and Transport in New Zealand.

By putting so many containers through a single channel, Kotahi members – particularly Fonterra – are faced with increased exposure to the risk of disruption by industrial disputes and natural disasters.

"If we think about the past 10 years, these are not rare events for New Zealand," says Mr Abeywickrama.

"In the event of an industrial dispute at Port of Tauranga three years down the track, or a natural disaster, the ability to quickly access Ports of Auckland will not be there because Auckland will not be expecting that volume."

During Ports of Auckland's recent industrial dispute, Port of

Tauranga could marginally invest to accommodate additional volume from Fonterra, says Mr Abeywickrama, because the fair share of volume each port had encouraged continued investment in infrastructure.

Having such a large amount of volume locked up for a decade, however, creates a disincentive for such continuing investment.

"And in the long run this one-port strategy could cause Port of



**PORT OF TAURANGA:** Flourishing

Tauranga to become less efficient as it doesn't have to compete with other ports," Mr Abeywickrama says.

He also sees potential risks for companies not part of the 10-year agreement.

When the deals were announced on 26 June, it was suggested that having larger container vessels visiting NZ waters

would deliver significant efficiencies for exporters and importers and ultimately relieve pricing pressures.

Mr Abeywickrama isn't so sure.

With such a big chunk of volume no longer up for grabs, "some other shipping lines will certainly review their strategies".

That may result in some pulling out of New Zealand altogether; it's likely to result in those competing with Maersk to steer clear of



**CHIN ABEYWICKRAMA:** Risky

Tauranga, given most if not all of Kotahi's container commitment to Port of Tauranga will be carried by Maersk to satisfy Kotahi's parallel pact with the shipping line.

That will mean importers and exporters that utilise the port and aren't Kotahi customers "will have less choice or market access. And if there's just one shipping line we know what happens to price," Mr

Abeywickrama says. "So they may have to accept a price that makes them less competitive and puts their export trade at risk.

"The price of international sea freight is not a function of a cost, everyone knows that, it's a commodity."

So bigger ships are cost efficient but not price efficient," says Mr Abeywickrama, pointing out the way the freight rate for a container on the world's largest trade route fluctuates from \$US600-\$US3000 illustrates that bigger ships don't necessarily mean cheaper shipping prices.

The way to mitigate these risks, Mr Abeywickrama suggests, is more commitments along the lines of those between Port of Tauranga and Kotahi, and Kotahi and Maersk.

"We should encourage other shippers – and even Fonterra in terms of anything that's not committed to Tauranga – to support at least one other channel in the North and South Island to make sure we're covered for the various risks that can happen along the way," he says.

"Because as we've seen recently in the case of natural disasters, for example, they're not once-in-100 year events."